

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

200 W. Washington, Suite 301
Indianapolis, IN 46204
(317) 233-0696
<http://www.in.gov/legislative>

FISCAL IMPACT STATEMENT

LS 6366

BILL NUMBER: HB 1234

NOTE PREPARED: Jan 11, 2014

BILL AMENDED:

SUBJECT: Property Tax Matters.

FIRST AUTHOR: Rep. Thompson

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: X **GENERAL**
DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: *Assessment Date:* This bill changes the assessment date for property tax purposes from March 1 to January 1, beginning with property taxes payable in 2016.

Energy Systems: The bill provides that for residential real property or a mobile home that is not assessed as real property and that is equipped with a solar, wind, geothermal, or hydroelectric heating or cooling system, the assessed value of the property is not to be increased if the improvement replaces a traditional heating or cooling system.

It also changes the assessed value deduction amounts from 100% to 50% of the out-of-pocket costs for solar, wind, geothermal, and hydroelectric devices that are placed on residential property.

Vacant Building Deduction: The bill permits a designating body to grant a property tax deduction to a property owner of a building located in an economic revitalization area to prevent the building from becoming vacant.

Abatements: This bill specifies that jobs retained may be counted for purposes of the deduction for rehabilitation or redevelopment of real property in economic revitalization areas. The bill also allows a designating body to specify characteristics of buildings to which the term "eligible vacant building" applies when granting a property tax deduction for the occupation of an eligible vacant building in an economic revitalization area.

Tax Statements: The bill requires county treasurers to mail property tax statements at least 15 business days, instead of 15 calendar days, before the first payment is due.

PTABOA: This bill provides that an employee of an assessor's office or an appraiser may not serve as a voting member of the property tax assessment board of appeals (PTABOA) in the county where the individual is employed.

Protected Taxes: The bill provides that the definition of "protected taxes" includes property taxes imposed by a political subdivision to pay for debt service obligations incurred after December 31, 2012, by a political subdivision that are not exempted from the application of a circuit breaker credit.

Standards of Conduct: This bill establishes assessor, appraiser, and tax representative standards of conduct.

The bill also makes conforming date changes regarding reassessments and the transmission of data to conform to the January 1 assessment date.

Effective Date: Upon passage; July 1, 2014; January 1, 2015.

Explanation of State Expenditures: *Assessment Date:* The Department of Local Government Finance (DLGF) would have to update many of its rules, publications, and forms to reflect the new assessment date. The DLGF might have to divert resources from other tasks to complete a review and make the required changes.

Standards of Conduct: The DLGF could be required to hold hearings regarding alleged violations of the standards. The number would probably be minimal and are within the agency's routine administrative functions. The DLGF should be able to implement this provision with no additional appropriations, assuming near customary agency staffing and resource levels.

Explanation of State Revenues:

Explanation of Local Expenditures: *Assessment Date:* Along with the change in the assessment date, this bill changes some deadlines related to reassessment, annual adjustments (trending), and assessed value (AV) certifications. In most cases the new deadlines either allow the same amount of time to complete the required tasks, or in some cases, they give additional time to local officials.

While some personal property tax returns may be filed up to two months earlier under this bill, the filing deadline remains May 15 (or June 14, with an extension). The bill requires the county assessor to certify personal property AV to the county auditor before June 1 (instead of July 1, under current law). This change would reduce the amount of time that the assessor has after the filing deadline to finalize personal property assessments.

PTABOA: The bill specifies that after June 30, 2014, an employee of the assessor or an appraiser that has contracts with the county may not serve as a voting member of the PTABOA. This provision may make it more difficult to find qualified members to serve.

Standards of Conduct: Assessors, appraisers, and tax representatives who violate the proposed standards of conduct would be subject to certification revocation for up to three years by the DLGF. If a contractor's certification is revoked, the contract would become void. The county would have to find another qualified contractor or take the work in-house.

Explanation of Local Revenues: *Assessment Date:* While there could be minimal effect, the change in the

assessment date from March 1 (or January 15 for mobile homes) to January 1 for all property should have no material effect on assessed values.

The valuation date for real property is the assessment date. In a growing economy, the assessment date change could delay two months of AV growth until the following assessment year. Likewise, in a declining economy, the change could delay two months of AV losses until the following assessment year. Most tax rates are calculated on assessed value and levies, so any change in net AV could impact tax rates. However, there should be very little impact.

Energy Systems - Assessments: Under this provision, an assessor would be prohibited from changing the assessed value of residential property if an existing heating or cooling system is replaced with a solar, wind, geothermal, or hydroelectric heating or cooling system. If the new system is worth more than the old system, then this provision would result in a loss of new assessed value.

Energy Systems - Deductions: This provision would shift part of about \$2 M in net property tax to owners of energy systems from other taxpayers. The other part of the \$2 M represents a possible reduction in circuit breaker losses for some local civil units and school corporations.

For residential property, this provision would limit the deduction for solar, wind, geothermal, and hydroelectric devices to 50% of the system's cost. Currently, all property owners may deduct 100% of the system cost from the property's AV.

For taxes payable in 2013 (2012 in LaPorte County), there were 2,080 residential deductions for solar and wind systems, totaling \$32.1 M. There were also 10,728 residential deductions for hydroelectric and geothermal systems, totaling \$146.9 M. The total residential deduction for all energy systems was \$179.1 M, or 72% of the total for energy systems deductions claimed by the owners of both residential and nonresidential property.

Under the bill, deductions would decline by \$89.5 M and the tax base would rise by that amount. At an average residential tax rate, this AV equates to about \$2 M in net tax.

Vacant Building Deduction: Under this provision, a designating body could grant a new property tax deduction in an effort to keep the building from becoming vacant. The building would have to be located in an economic revitalization area and the owner would have to submit a statement of benefits before vacating the building.

The designating body would determine the term of the deduction (up to ten years) and the percentage of the assessed value that would be deducted each year. The deduction may not exceed the annual lease or rent amount of that building, or of a similar building in the case of an owner-occupied building.

Like the current vacant building abatement, this new deduction would provide deductions against existing assessed value and reduce the tax base. The specific impact of this provision depends on local actions.

Vacant Building Abatement - Summary - The extension of the maximum term of the deduction and the expansion of eligible properties could both result in additional abatements. These additional abatements would remove assessed value from the tax base and shift part of the tax burden from the affected building owners to all other property owners. The reduced net assessed value would increase tax rates, possibly causing a further increase in circuit breaker losses for civil taxing units and school corporations. The specific

impact of this provision depends on local actions.

Tax Statements: Beginning in 2015, this provision would reduce the amount of time that county treasurers have to prepare tax bills by about one week. Taxpayers would gain that extra week's notice before the first installment of taxes is due.

Property taxes are due by May 10 and November 10 each year. Currently, tax bills must be mailed at least 15 calendar days before the May 10 due date.

In 2015, May 10 falls on a Sunday, so taxes will first be due on Monday, May 11. Under current law, the bills must be mailed by April 26, a Sunday. So it is assumed that the latest day they can be mailed is Saturday, April 25. Under this bill, however, the bills would have to be mailed by Monday, April 20, or five days before the current mailing deadline.

Protected Taxes - Summary - Beginning with taxes payable in 2014 under this provision, debt levies (aside from exempt levies) would become protected taxes only if the debt was incurred after December 31, 2012. Under current law, taxing units may determine the allocation of circuit breaker losses among their unprotected funds. Property tax levies in the following years could be affected depending on which funds receive the loss allocations.

If some of the losses are allocated to debt funds, it is possible that debt levies could increase in subsequent years to replenish operating balances if it becomes necessary to use those balances to make debt payments. If levies rise, then all taxing units that intersect the taxing unit could be subject to higher circuit breaker losses.

Additional Information-

Vacant Building Abatement - Vacant buildings are currently defined as buildings that are zoned for commercial or industrial purposes and are unoccupied for at least one year. The owner of an eligible vacant building located in an economic revitalization area may be granted a deduction from the AV of the building if the property owner or tenant occupies the eligible vacant building and uses it for commercial or industrial purposes. The deduction may be allowed for up to two years. Vacant building abatements provide deductions against existing assessed value and reduce the tax base.

This bill would increase the number of years for which a taxpayer may claim an abatement for a vacant building. The extension of the deduction term from 2 years to a maximum of 10 years would continue the tax base reduction for up to 8 additional years on a building.

The bill would also add office property to the commercial or industrial property zoning requirement in the current definition of a vacant building. In addition, instead of limiting the deduction to those property types, the bill would also permit the redevelopment commission to adopt a resolution defining characteristics of a vacant building in that revitalization area. The expansion of the term could result in additional properties qualifying for the abatements.

Protected Taxes - Under current law, beginning with property tax distributions received by taxing units in 2014, taxing units must allocate circuit breaker losses only to unprotected funds to the extent possible. If the total circuit breaker loss exhausts the levies in all of a taxing unit's unprotected funds, the excess is allocated

to the protected funds. Taxing units may transfer money from nondebt funds into the debt service fund to replace the revenue that the debt service fund would have received if not for the circuit breaker allocation.

A study of 2013 levies and circuit breaker losses found that if the protected taxes law had been in effect for 2013, 3 school corporations and 1 township would have completely exhausted the levies in their nondebt funds. Another 17 school corporations and 6 civil units would have lost at least 50% of their nondebt levies to circuit breaker losses.

Currently, certain levies are exempt from the calculation of property tax limits under the circuit breaker law. These include levies that are approved in a referendum and levies in Lake and St. Joseph Counties for debt incurred before July 1, 2008. When a taxing unit distributes tax receipts among its funds, the total amount collected from exempted funds must be allocated to those funds without any adjustment for circuit breaker credits.

Beginning in CY 2013 under HEA 1072 (2012), both the exempt levies plus any debt service levies that are not exempt are deemed "protected taxes". The total amount of protected taxes collected were to be allocated to the appropriate fund without any adjustment for circuit breaker credits. The tax loss created by the circuit breaker credits was to be allocated among the unprotected funds.

Under SEA 517 (2013), the change in circuit breaker loss allocations was delayed for one year, until 2014.

State Agencies Affected: Department of Local Government Finance.

Local Agencies Affected: Local assessors; County auditors; County treasurers; Property Tax Boards of Appeal; Local civil taxing units and school corporations.

Information Sources: LSA property tax database.

Fiscal Analyst: Bob Sigalow, 317-232-9859.